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NABE Outlook

NABE MACROECONOMIC FORECAST RESULTS

September 1989

This report presents the consensus of macroeconomic forecasts made by a panel of professional forecasters drawn from the membership of the National Association of Business Economists. Most of the forecasts submitted were made in August and are being reported in September 1989. This survey is one of three taken regularly by NABE; the other inquiries are the Industry Outlook and the Economic Policy Surveys.

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Highlights

* The longest peace-time expansion in U.S. history is expected to continue through the remainder of 1989, according to the vast majority of NABE's panel of forecasting experts. Over 90% of the panel of 72 professional business economists foresee continued growth into 1990. The panel's median forecast is for a 2.1 percent 4th quarter-to-4th quarter increase in 1989. While this is much lower than the 3.4 percent growth rate in 1988, it is well in line with the trend growth in the economy's productive capacity and is only a bit lower than the 2.3 percent increase forecast in last quarter's survey.

* A substantial majority of the panel expect growth to continue at about the same rate throughout 1990, with a median forecast of 2.2 percent on a 4th quarter-to-4th quarter basis. This is essentially unchanged from the previous forecast. Growth at this rate for the next 1 1/2 years would constitute the much-sought-after "soft landing", a transition from the rapid growth of 1988 to a more sustainable rate in the 2 1/2 percent range.

* With the oil and food price increases having worked their way through the economy without any lasting impact, the panel has scaled back its inflation forecasts for this year -- the median 4th quarter-to-4th quarter change in Consumer Prices is now 5.0 percent, down from 5.3 percent in the last forecast. This does represent an increase over the 1988 inflation rate of 4.3 percent, but the increase is almost entirely explained by the oil and food shocks in the first half of 1989. The median forecast for 1990 CPI inflation is for 4.3 percent (again on a 4th quarter-to-4th quarter basis). This is not only slower than the expected 1989 pace but is identical with 1988's rate. In other words, the core rate of inflation remains in the 4-4.5 percent range.

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* A majority of our panelists have now moved the expected arrival of the next recession out to 1991 or beyond. Only 37% now expect a recession to arrive this year or next, while a significant 31% do not see a business downturn before 1992.

* Panel members expect to see some continued improvement in the trade deficit this year, with a median forecast of a $110 billion deficit, versus a $122.8 billion red ink figure in 1988. The budget deficit also shrinks somewhat -- the panel now expects a $150 billion deficit, somewhat smaller than the $155.1 billion recorded last year. Both deficits are expected to continue to improve in 1990, with the trade figure falling further, to $100 billion, and the budget deficit shrinking to $135 billion. However, this latter figure is still nowhere near the $100 billion Gramm-Rudman-Hollings deficit reduction ceiling mandated for fiscal 1990.

* Interest rates have finally settled down and allowed the panelists' forecast to catch up. The median forecast of 7.9 percent for three month Treasury bills for September is well in line with current rates, as is the 8.1 percent forecast for 30 year bonds. Short rates are expected to continue to decline through 1989 and most of 1990, ending the year at 7.3 percent. Long term Treasury bond yields are expected to remain flat, in the 7.9-8.1 percent range throughout the period. Thus, the yield curve, which has been flat to inverted since last November, is expected to resume a more normal profile, with short rates lower than long.

The "Soft Landing" Expected to Continue

At the time of this writing, the Fed seems to have engineered the much-awaited "soft landing". Economic growth has dropped to below 3 percent, inflation is dropping, and interest rates are easing. A majority of NABE's panel members expect this soft landing to continue through 1990, with real growth at a level fast enough to keep the unemployment rate below 6 percent, but slow enough to keep inflation in the 4 - 4 1/2 percent range.

However, the panelists' responses do imply a slowdown in economic growth in the last half of this year. Most panelists prepared their forecasts based on the preliminary estimate of 1.7% real GNP growth in the 2nd quarter of 1989. Using this figure, their implied growth for the last half of the year is 1.5%. Since most of the forecasts were prepared, the 2nd quarter growth figure has been revised upwards to a 2.7% rate. Those panelists who incorporated the revised data in their forecasts had a median growth (4th quarter-to-4th quarter) of 2.7%, with an implied growth rate of 2.2% for the last half of this year. Either set of figures is consistent with a "soft landing" scenario.

Inflation Forecasted to Ease in 1990

The panel members' median forecast has inflation beginning to decline in the last quarter of 1989, with a further drop next year. The 4th quarter-to 4th quarter change in the Consumer Price Index for 1989 is projected at 5.0 percent, up from a 4.3 percent rate in 1988. The major causes of the increase are the higher oil and food prices encountered earlier in the year. On a year-over-year basis, the CPI is expected to rise an identical 5.0 percent. As in previous forecasts, the GNP Implicit Price Deflator shows a somewhat lower inflation rate of 4.4 percent for 1989 year-over-year.

The good news in the inflation story is that the food and oil shocks had no effect on the "core rate" of inflation, which is felt to be in the 4 - 4 1/2 percent range. Thus, the panel members have the 1990 CPI inflation rate at 4.5 percent (year-over-year), with the GNP Deflator running at a 4.2 percent rate.

The Forecast Spread Stabilizes for 1989 and Narrows for 1990

There was little change in the spread in the 1989 forecasts between the optimistic and pessimistic panel members, as can be seen from the table below:

Real GNP Growth (1988Q4-1989Q4)	Aug 88	Nov 88	Estimates of Survey in: Feb 89	May 89	Sep 89
Median Forecast	2.0%	2.2%	2.5%	2.3%	2.1%
Upper Quartile (25%)	3.0	3.2	3.4	3.0	2.9
Lower Quartile (25%)	0.6	1.1	1.4	1.5	1.5
Spread (Upper - Lower)	2.4	2.1	2.0	1.5	1.4

However, the 1990 spread narrowed perceptibly, a reflection of the adoption of a "soft landing" scenario by the majority of the survey respondents:

Real GNP Growth (1989Q4-1990Q4)	Estimates of Survey in: May 89	Sep 89
Median Forecast	2.3%	2.2%
Upper Quartile (25%)	3.4	3.0
Lower Quartile (25%)	0.7	1.2
Spread (Upper - Lower)	2.7	1.8

It is interesting to note that the 1.8 percentage point spread of the current forecast is much tighter than the 2.4 point spread in the 1989 forecast at the same time last year. It seems that the majority of our panel members are more comfortable with the "soft landing" scenario than they were at this time last year.

Sector Outlook Unchanged from Last Forecast

Given that there was little change in the overall economic growth forecast, it should come as no surprise that the sectoral outlook is relatively unchanged from May's forecast:

* Industrial production is now expected to grow at 3.1 percent, little changed from the 3.2 percent in May. The median forecast is for a slowdown to 1.7 percent (on a year-over-year basis) for 1990. As in last quarter's forecast, caution must be taken in interpreting these year-over-year forecasts. The economic slowdown in the median forecast is taking place in the last half of 1989 and thus does not show up in the year-over-year figures until 1990.

* Housing starts are now forecast to average 1.42 million units, effectively unchanged from the 1.41 million in the last forecast. As before, 1990 starts, at 1.45 million units, show little change from this year's expected levels.

* The median forecast for auto sales is 10.0 million units, up only a bit from the May projection of 9.9 million. The 1990 forecast is for 9.8 million units. Van and truck sales are expected to be 5.0 million units in 1989 and 4.9 million in 1990.

Quarterly Interest Rate Forecasts

Our panel provide us with a quarterly path for both short and long-term interest rates. The forecasts for the average interest rates for the last month in each quarter, along with the average of the upper and lower 25%, are shown below:

Table 1

Quarterly Interest Rate Projections

	Jun89A	Sep89F	Dec89F	Mar90F	Jun90F	Sep90F	Dec90F
3 Month T-Bills							
- median	8.2%	7.9%	7.6%	7.4%	7.2%	7.2%	7.3%
- upper 25%		8.1	8.2	8.2	8.3	8.2	8.3
- lower 25%		7.7	7.1	6.8	6.4	6.4	6.2
30 Yr. T-Bonds							
- median	8.3%	8.1%	8.0%	7.9%	7.9%	8.0%	8.0%
- upper 25%		8.3	8.5	8.5	8.5	8.6	8.8
- lower 25%		7.8	7.6	7.4	7.3	7.3	7.1

A = Actual; F = Forecast

A 1989-1990 Recession Not Thought Likely

Almost 2/3 of our panel members now think that a recession is not likely before 1991, reflecting the widespread support for a "soft landing" scenario. Almost 1/3 of our respondents think that another recession will not arrive until 1992 or later. If the expansion does continue until that time, it will set a record for the longest expansion (in either war or peacetime) in the history of the United States.

Table 2

Timing of the Next Recession

Next Recession Begins In:	% of Respondents in: May 88	Aug 88	Nov 88	Feb 89	May 89	Sep 89
1989	57.4%	47.3%	40.0%	19.2%	19.6%	11.9%
1990	31.5	41.8	48.3	55.8	43.5	25.4
1991	1.9	9.1	8.3	17.3	17.4	32.2
1992	3.8#	1.8#	1.7	1.9	6.5	13.6
1993 or later	-	-	1.7	5.8	13.0	16.9

= 1992 or later

Table 3

Summary of NABE Median Forecasts

	1988 Actual	1989 Forecasts Feb 89 Survey	1989 Forecasts May 89 Survey	1989 Forecasts Sep 89 Survey	1990 Forecasts May 89 Survey	1990 Forecasts Sep 89 Survey
Fourth Quarter to Fourth Quarter						
Real GNP	3.4%	2.5%	2.3%	2.1%	2.3%	2.2%
Consumer Price Index	4.3%	4.8%	5.3%	5.0%	4.7%	4.3%
Annual Averages						
Real GNP	4.4%	2.7%	2.8%	2.6%	1.8%	1.8%
Pers. consum. expend.	3.4%	2.5%	2.5%	2.2%	1.9%	1.9%
Nonres. fixed invest.	8.4%	4.0%	4.6%	3.6%	1.8%	2.7%
Net exports (BB 82$)	-$74.9	-$85	-$90	-$53	-$76	-$47
Nominal Magnitudes:						
Merch. trade bal.	-$122.8	-$103#	-$112	-$110	-$100	-$100
Fed. budg. def.(FY)	-$155.1	-$155	-$160	-$150	-$140	-$135
Corp. prof.(aft.-tax)	18.9%	6.3%	5.3%	2.5%	1.9%	2.0%
Real Magnitudes:						
Unempl. rate (civ.)	5.5%	5.5%	5.4%	5.3%	5.8%	5.7%
Indus. production	5.7%	3.4%	3.2%	3.1%	1.8%	1.7%
Housing starts (MM)	1.49	1.44	1.41	1.42	1.44	1.45
Tot. veh. sales (MM)	15.8	15.3	14.9	15.0	14.9	14.7
Autos	10.6	10.2	9.9	10.0	9.9	9.8
Domestic	7.5	7.3	7.1	7.1	7.1	7.0
Imports	3.1	2.9	2.8	2.9	2.8	2.8
Trucks	5.2	5.1	5.0	5.0	5.0	4.9
Inflation and Interest Rates:						
Consumer price index	4.1%	4.7%	5.1%	5.0%	4.8%	4.5%
GNP deflator	3.3%	4.5%	4.6%	4.4%	4.4%	4.2%
Treasury bills (3 mo.)	6.7%	8.0%	8.6%	8.1%	7.6%	7.3%
Treas. bonds (30 yr.)	9.0%	9.2%	9.1%	8.4%	8.8%	7.9%

\# Old forecast adjusted for new Customs definition.

The Sep 1989 columns are based on 72 responses received.

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